

Via Federal Express

February 17, 2006

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
1 South Station, 2nd Floor
Boston, MA 02110

RE: New England Gas Company Petition for Approval of Proposed Changes in its Gas Procurement Practices, D.T.E. 06-3

Dear Ms. Cottrell:

KeySpan Energy Delivery New England (“KeySpan”)¹ hereby submits these comments on the proposal by New England Gas Company (“New England”) to change its existing gas commodity procurement practices in its Massachusetts service areas. By letter dated January 3, 2006 to the Department, New England indicated that it proposes to modify its procurement practices by increasing the percentage of total gas volumes purchased and purchasing the volumes further in advance of delivery. New England indicates that this change would mitigate the marked increase in volatility of natural gas prices and stabilize the price that its Massachusetts customers pay through the Gas Adjustment Factor. As discussed below, KeySpan supports New England’s proposal.

In its request for approval, New England states that it presently purchases approximately 28 percent of the total volumes it needs to meet its Massachusetts peak-season customer requirements in nearly equal increments over a 7-month period. As indicated by New England, the remainder of gas is purchased by New England on a first-of-the-month or spot basis throughout the winter season and is subject to the volatility of the market and short-term speculation resulting in price increases. New England would increase the volume of its non-storage annual gas supply purchased in advance and purchase the volumes two years prior to the month of delivery. According to New England, its proposal is similar to its present procurement practices in Rhode Island that have resulted in a far lesser degree of price increases for its Rhode Island customers. New England also notes that the implementation of the Rhode Island procurement strategy in Massachusetts will benefit customers evaluating transportation service as an alternative to sales service because such customers have a more stable price to use as a comparison.

¹ Boston Gas Company, Colonial Gas Company and Essex Gas Company each do business in Massachusetts as KeySpan Energy Delivery New England.

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KeySpan, like most natural gas local distribution companies, purchases a significant amount of its winter supply during the peak winter months based on first-of-the-month pricing. Purchases made during the winter months may be susceptible to a high degree of price volatility. KeySpan agrees with New England that price volatility and resulting price increases are not likely to end in the foreseeable future. KeySpan's experience is that procuring supply over a longer period mitigates some of the volatility that affects gas prices. In KeySpan Energy Delivery New England, D.T.E. 03-85 (2003), the Department approved KeySpan's request to change its gas procurement practice to lock in the price for one-third of its projected winter gas supply. KeySpan was also authorized to lock in prices for this supply equally over a longer twelve-month period. KeySpan's proposal was based on its experience of purchasing storage supplies in equal amounts over the seven-month April through October period resulting in reduced price volatility. KeySpan's experience in purchasing additional volumes of non-storage gas supply over longer periods of time is that there is less price volatility than otherwise would have occurred. In New Hampshire and New York, KeySpan has experienced reduced volatility of both storage and non-storage volumes since 2002 due to its strategy of purchasing volumes over a longer period of time.

KeySpan's experience and the results of New England's Rhode Island procurement practices demonstrate that purchasing volumes over a longer advance period reduces the negative impact of present market conditions on natural gas customers resulting from price volatility. New England's proposal to change its gas procurement practices is reasonably designed to benefit customers and meets the objective of price stability as set out in Risk Management Techniques to Mitigate Natural Gas Price Volatility, D.T.E. 01-100-A (2002). Therefore, KeySpan supports New England's proposal.

Very truly yours,

Patricia Crowe

PC:ca

Cc: Gary L. Beland, Director, Gas Supply, NEGC
George Yiankos, Director, Gas Division
Kevin Brannelly, Director, Rates & Revenues Division
Andreas Thanos, Assistant Director, Gas Division
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